MANITOBA ENERGY AUTHORITY

THE MANITOBA ENERGY AUTHORITY

SIXTH ANNUAL REPORT

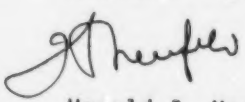
FOR THE YEAR ENDED MARCH 31, 1988

The Honourable George Johnson
Lieutenant Governor of the Province of Manitoba

May it please your Honour:

I have the honour of presenting to you the Sixth Annual Report of The Manitoba Energy Authority for the fiscal year ended March 31, 1988.

Respectfully,



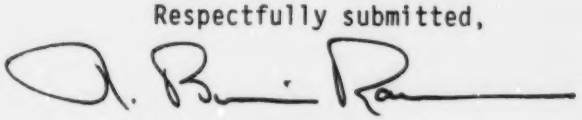
Harold J. Neufeld
Minister

The Honourable Harold Neufeld
Minister Responsible for
The Manitoba Energy Authority
Province of Manitoba
Legislative Building
Winnipeg, Manitoba
R3C 0V8

Sir:

I have the honour of presenting the Sixth Annual Report of The Manitoba Energy Authority together with financial statements for the fiscal year ended March 31, 1988.

Respectfully submitted,



A. Brian Ransom
Chairman
Board of Directors
The Manitoba Energy Authority

THE MANITOBA ENERGY AUTHORITY

LEGISLATIVE MANDATE

The Manitoba Legislature established The Manitoba Energy Authority through The Manitoba Energy Authority Act. The Act assigns to the Authority the responsibility to formulate and carry out energy policies designed to assure a continuing and adequate supply of energy in the province; to alleviate the effects of any energy shortage that may occur in the province; and to promote the establishment, development and operation within the province of industries and undertakings that are by their nature energy-dependent.

This mandate makes The Manitoba Energy Authority responsible for investigating potential extra-provincial markets for electrical energy and to negotiate or direct negotiations for the sale or purchase of electrical energy exported from or imported to the province. The Authority is mandated to compile and review data on the supply and demand for energy so as to keep the Minister of Energy and Mines apprised of current conditions relating to the present and future availability of energy supplies in the province, in Canada and in other countries.

In addition, The Manitoba Energy Authority undertakes related duties as directed by the Minister of Energy and Mines or the Lieutenant Governor in Council. The Authority has been charged with the responsibility to coordinate public policy objectives related to the construction of the Limestone Generating Station, particularily with regard to purchasing and tendering, industrial benefits, and training and employment.

This mandate has been administered by the Authority's Board of Directors through its standing committees. The Board's* six members are appointed by the Government of Manitoba. The members are:

A. Brian Ransom	Chairman
John J. Arnason	Vice-Chairman Former President and Chief Executive Officer Manitoba Hydro
Garry H. Beatty	President and Chief Executive Officer Manitoba Hydro
John S. McCallum	Faculty of Management University of Manitoba
Charles S. Kang	Deputy Minister Manitoba Energy and Mines
Hugh Eliasson	Deputy Minister Manitoba Industry, Trade and Technology

* Board members during the year under review were Marc Eliesen, Chairman; John J. Arnason, Vice-Chairman; Garry H. Beatty; Charles S. Kang; Hugh Eliasson.

ACTIVITIES OF THE MANITOBA ENERGY AUTHORITY

POWER EXPORT NEGOTIATIONS

The Electrical Energy Marketing Committee is established to investigate potential extra-provincial markets for electrical energy; and to negotiate or direct negotiations for the sale or purchase of electrical energy exported from or to the province.

In the 1987-88 fiscal year, The Manitoba Energy Authority, in conjunction with Manitoba Hydro, was active in negotiations with electric utilities in Canada and the United States.

In August 1987 an agreement was signed with Ontario Hydro to supply 200 thousand kilowatts of firm power and 5.6 billion kilowatt hours of energy to be delivered over a five year period from October 1998 to November 2003.

In November 1987 a seasonal diversity exchange agreement for 200 thousand kilowatts of capacity and 175 million kilowatt hours of energy each year was signed with Northern States Power Company for the period from November 1996 to October 2016. The power will be exported from Manitoba in the summer and may be returned in the winter months.

Negotiations continued with a collection of U.S. utilities known as the Upper Mississippi Power Group for a potential sale of firm power, a seasonal diversity exchange and construction of a new high voltage transmission line to the United States.

Discussions continued with Ontario Hydro for a short-term sale of surplus hydraulic energy and an increase in the size and duration of the recently completed sale which begins in 1998.

The Electrical Energy Marketing Committee's membership is appointed by the Authority's Board of Directors. Current members are:

A. Brian Ransom	Chairman
John J. Arnason	Member
John S. McCallum	Member
W.A. (Art) Derry	Member, Vice-President Business Development Manitoba Hydro

R.O. (Ralph) Lambert	Member, Senior Vice-President Customer Service and Marketing Manitoba Hydro
Charles S. Kang	Member

ENERGY POLICY

The Energy Allocation Committee is established to investigate and review data respecting the supply of and demand for energy; to develop plans for the allocation of supplies of energy; to investigate and review the plans or programs of other provinces or countries for the allocation of supplies of energy; and to maintain a continuing liaison with the Government of Canada with respect to the actual or prospective implementation of the Energy Supplies Emergency Act, 1979 (Canada).

The Energy Allocation Committee was not active in the past fiscal year. Responsibility for its activities, however, was administered by the Energy Division of the Department of Energy and Mines. This reflected in part not only the Energy Division's existing resources but also its ongoing review of petroleum supply and demand, and ongoing liaison with the Government of Canada and other provinces on energy planning issues.

The Energy Allocation Committee's membership is appointed by the Authority's Board of Directors. Current members are:

A. Brian Ransom	Chairman
John J. Arnason	Member
Charles S. Kang	Member

ENERGY INTENSIVE INDUSTRIAL DEVELOPMENT

Over the past year the Authority has worked closely with government and private sector representatives on a number of specific industrial endeavors. Pre-feasibility studies associated with a Japanese interest in a Manitoba cesium plant are currently underway. Promotional research and commercial activities have been pursued with a number of Japanese, European and American firms associated with various silicon related opportunities, particularly in the area of new ceramics applications. In collaboration with the Department of Energy and Mines, the Authority has been examining stainless steel manufacturing possibilities based on the extraction and processing of Manitoba's chromite deposits. Finally, together with a Japanese company, the Manitoba Energy Authority is evaluating the potential for a liquid hydrogen plant in Manitoba.

In order to provide a framework for the investigation and development of these initiatives The Manitoba Energy Authority has entered into industrial cooperation agreements with several firms. To date, such arrangements have been concluded with a number of Japanese and Korean financial institutions, trading companies and manufacturing firms.

The Authority has conducted discussions with several aluminum producers regarding a possible aluminum development in the province.

LIMESTONE PLANNING AND COORDINATION

The Authority continued to assist Manitoba Hydro with evaluation of Manitoba content on large Manitoba Hydro contracts.

In the past year, the Authority negotiated an industrial benefits agreement with Marine Industries Ltd. (M.I.L.) in conjunction with the $32.5 million contract to supply Manitoba Hydro with three synchronous condensers for the Dorsey Converter Station. Contractual arrangements are being finalized. In addition, the Authority continued to administer the industrial benefits agreement with General Electric Canada associated with the supply of turbines and generators for Limestone.

The Authority continues to administer the Limestone northern employment and training programs for Limestone through its subsidiary, the Limestone Training and Employment Agency (L.T.E.A.). Vocational and academic training takes place in established educational institutions, in northern communities or at a simulated job site training centre in Thompson.

THE MANITOBA ENERGY AUTHORITY

Financial Statements
for the Year Ended March 31, 1988
and Auditors' Report to the Directors

Deloitte
Haskins Sells

Suite 2100
360 Main Street
Winnipeg, Manitoba R3C 3Z3
(204) 949-1370
Facsimile (204) 947-2689

AUDITORS' REPORT

To the Board of Directors of
The Manitoba Energy Authority:

We have examined the balance sheet of The Manitoba Energy Authority as at March 31, 1988 and the statements of operations and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at March 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Deloitte Haskins & Sells

Chartered Accountants

September 1, 1988

THE MANITOBA ENERGY AUTHORITY

BALANCE SHEET

MARCH 31, 1988

	1988	1987 (restated)
ASSETS		
CURRENT ASSETS		
Cash	$ 28,928	$ 42,124
Accounts receivable	7,841	3,132
Appropriation receivable	-	69,108
Prepaid expenses and other assets	4,812	2,753
	41,581	117,117
FIXED ASSETS - at cost, less accumulated depreciation (Note 3)	86,237	84,238
DEFERRED PENSION COSTS (Note 5)	174,210	183,378
OTHER ASSETS, at cost	4,336	4,124
	$ 306,364	$ 388,857
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 65,810	$ 98,369
Accrued interest payable	77,735	69,108
	143,545	167,477
ADVANCES DUE TO THE PROVINCE (Note 6)	3,288,095	3,125,000
DEFERRED REVENUE	25,316	25,108
UNFUNDED PENSION LIABILITY (Note 5)	221,666	183,378
	3,678,622	3,500,963
REVENUE DEFICIENCY		
ACCUMULATED REVENUE DEFICIENCY	(3,372,258)	(3,112,106)
	$ 306,364	$ 388,857

THE MANITOBA ENERGY AUTHORITY

STATEMENT OF OPERATIONS AND ACCUMULATED REVENUE DEFICIENCY

YEAR ENDED MARCH 31, 1988

	1988	1987
REVENUE		
Department of Energy and Mines appropriation	$ -	$ 235,166
Miscellaneous revenue	460	-
	460	235,166
EXPENSES		
Operating expenses		
Personnel services	681,944	481,863
Grants	20,000	-
Travel	101,208	88,025
Communications	70,962	81,255
Rentals	98,675	63,014
Professional services	341,008	591,882
Interest expense	244,675	235,248
Depreciation and amortization	21,650	46,561
Other operating	92,395	43,420
	1,672,517	1,631,268
NET REVENUE DEFICIENCY FOR THE YEAR	(1,672,057)	(1,396,102)
ACCUMULATED REVENUE DEFICIENCY, BEGINNING OF YEAR	(3,112,106)	(1,716,004)
REVENUE DEFICIENCY DISCHARGED BY THE PROVINCE OF MANITOBA (Note 1)	1,411,905	-
ACCUMULATED REVENUE DEFICIENCY, END OF YEAR	$(3,372,258)	$(3,112,106)

THE MANITOBA ENERGY AUTHORITY

STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED MARCH 31, 1988

	1988	1987
OPERATING ACTIVITIES		
Revenue deficiency for the year	$(1,672,057)	$(1,396,102)
Items not affecting cash flow		
Depreciation	21,650	46,561
Amortization of deferred pension costs	9,168	-
Current service pension costs	38,288	-
Cash flow from earnings	(1,602,951)	(1,349,541)
(Increase) in accounts receivable	(4,709)	(3,132)
Decrease (increase) in appropriation receivable	69,108	(23,314)
(Increase) in prepaid expenses and other assets	(2,059)	(705)
(Decrease) in accounts payable and accrued liabilities	(32,559)	(58,092)
Increase in accrued interest payable	8,627	23,314
Increase in deferred revenue	208	25,108
	(1,564,335)	(1,386,362)
INVESTMENT ACTIVITIES		
Purchase of leasehold improvements	(6,700)	(3,949)
Purchase of furniture, furnishings and office equipment	(16,042)	(13,936)
Purchase of word processing and computer equipment/software	(907)	(19,711)
Purchase of other assets	(212)	(4,124)
	(23,861)	(41,720)
FINANCING ACTIVITIES		
Advances from the Province of Manitoba	1,575,000	1,450,000
TOTAL CASH (USED) PROVIDED	(13,196)	21,918
CASH, BEGINNING OF YEAR	42,124	20,206
CASH, END OF YEAR	$ 28,928	$ 42,124

THE MANITOBA ENERGY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 1988

1. AUTHORITY AND MANDATE

The Manitoba Energy Authority is incorporated under a specific statute in the Province of Manitoba, being "The Manitoba Energy Authority Act", Chapter E112 of the Continuing Consolidation of the Statutes of Manitoba.

The Authority is responsible for the following:

(i) Developing and implementing policies to ensure the long-term stability and availability of electrical energy supply to Manitobans.

(ii) Through its Electrical Energy Marketing Committee, for negotiating export sales of electrical energy with other provincial utilities and with utilities in the United States.

(iii) For promoting the establishment, development and operation of energy intensive industries within the province.

(iv) For co-ordinating all governmental and Manitoba Hydro activities related to industrial and employment benefits associated with the Limestone Generating Station Project. The Manitoba Jobs Fund provides funding for all Limestone-related expenditures.

The Limestone Training and Employment Agency (LTEA) was established with the approval of the Board of Directors of The Manitoba Energy Authority, under Ministerial direction, pursuant to Section 4 of The Manitoba Energy Authority Act, March 25, 1985. Effective July 14, 1987, the Agency was incorporated as a wholly owned subsidiary of The Manitoba Energy Authority under Section 9 of The Manitoba Energy Authority Act. The LTEA organizes all aspects of Limestone-related training, and ensures that northern Manitoba residents have ample opportunities to obtain employment on the project and permanent employment related to the electrical industry.

Consistent with Ministerial intent to ensure that the Authority exercises no control over the LTEA's assets or operations, the Authority does not and will not include the reporting of the Limestone Training and Employment Agency's financial activities in its financial statements. The LTEA will publish its own financial statements incorporating the disbursements of the Departments of Education, Employment Services and Economic Security, and Labour for Limestone-related training, as well as its own direct expenditures.

The Legislature has authorized the borrowing and spending of monies for the operations of The Manitoba Energy Authority as follows:

Legislative Authority	-	The Loan Act, 1984
Authorization	-	$5,000,000
Unexpended balance as at March 31, 1988	-	$300,000

THE MANITOBA ENERGY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 1988

1. AUTHORITY AND MANDATE (continued)

The Government of the Province of Manitoba has adopted a new accounting policy effective for its year ended March 31, 1987 with respect to the treatment of the value of its assets related to Crown corporations, Agencies, Boards and Commissions. As a result of this new policy, the Province has, at March 31, 1987 written down the value of its assets based on the non-recoverable cumulative losses recorded by each of these entities.

The application of this policy to the Authority has resulted in the reduction of advances from the Province of Manitoba through forgiveness in the amount of $1,411,905 as at March 31, 1988, by way of Order-in-Council 1383/87.

2. SIGNIFICANT ACCOUNTING POLICIES

Pension costs

Pursuant to Section 29 of The Manitoba Energy Authority Act, the Lieutenant Governor in Council has directed that The Civil Service Superannuation Act apply to employees who were employed under The Civil Service Act immediately prior to becoming employed as officers or employees of The Manitoba Energy Authority effective the date on which they become employed with The Manitoba Energy Authority. In accordance with the provisions of The Civil Service Superannuation Act, the Authority is required to contribute 50% of the pension disbursement made to its retired employees. There has been no funding of pension obligations to date.

The cost of pension benefits provided in exchange for employees' services rendered in the period are determined using the projected benefit method pro rated on services. Deferred pension costs represent the unamortized present value of the pension plan deficit which arose on commencement of the plan. Deferred pension costs are being amortized on a straight-line basis over a period of 20 years.

The Authority has also established a Money Purchase Pension Plan for those employees who do not contribute to The Civil Service Superannuation Fund. This Plan provides for full vesting after a qualifying period by the employees. Both the Authority and the employees contribute to the Plan on the basis of the employees' regular salary.

Depreciation

Depreciable assets other than leasehold improvements are depreciated at the rate of 20% per year on the declining-balance basis.

Leasehold improvements are amortized on the straight-line method over the life of the lease, a period of five years.

THE MANITOBA ENERGY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 1988

3. FIXED ASSETS

The major categories of fixed assets and related accumulated depreciation as at March 31, 1988 are as follows:

	1988			1987
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Furniture and office equipment	$ 83,821	$38,899	$44,922	$40,110
Computer equipment	68,550	35,577	32,973	40,310
Leasehold improvements	10,649	2,307	8,342	3,818
	$163,020	$76,783	$86,237	$84,238

4. NORTHERN STATES POWER COMPANY (NSP) CONTRACT

The Authority negotiated and is co-signer with The Manitoba Hydro-Electric Board in an agreement dated June 14, 1984 to supply 500 MW or 500,000 kilowatts of power to NSP for a 12 year period, May 1, 1993 to April 30, 2005, at an annual average capacity factor of 75%.

Under the terms of The Manitoba Energy Foundation Act, being Chapter 13 of the Statutes of Manitoba, 1986-87 (which may be referred to as Chapter E114 of the Continuing Consolidation of the Statutes of Manitoba), the Authority and Manitoba Hydro shall each be reimbursed an amount equal to the expense incurred by each in negotiating or directing the negotiation of any agreement respecting the long-term export sale of hydro-electric power. Such sales made on and after January 1, 1984 must be designated by an order of the Lieutenant Governor in Council as an agreement for the purpose of The Manitoba Energy Foundation Act.

The Authority and Manitoba Hydro will be reviewing each other's attributable costs to establish reimbursable charges.

5. PRIOR PERIOD ADJUSTMENT

The deferred pension cost and related obligation were not previously recorded due to unavailability of an actuarial report. An actuarial valuation has determined the unfunded liability for the Authority's participating staff in The Civil Service Superannuation Fund as at December 31, 1986 to be $175,100. This liability increased to $183,378 as at March 31, 1987.

The 1987 financial statements have been restated to record a deferred pension cost and an unfunded pension liability of $183,378.

THE MANITOBA ENERGY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 1988

6. ADVANCES DUE TO THE PROVINCE

Advances of $1,575,000 and $1,450,000 for the years ended March 31, 1988 and 1987 bear interest at the prevailing bank prime rate and accrued interest is paid quarterly from the Authority's available loan authority. Advances are repayable at any time in whole or in part at the option of the Lieutenant Governor in Council.

7. FUTURE COMMITMENTS

Future minimum rental payments required under operating leases for the years ending March 31 are as follows:

1989	$82,685
1990	80,281
1991	83,492
1992	69,577

The Authority has entered into employment contracts with nine of its employees. These agreements terminate during the period January 2, 1990 through January 4, 1991 and presently represent an annual commitment of approximately $607,900.

The Authority has also entered into consulting contracts which have a potential future obligation of approximately $75,300.

8. SUBSEQUENT EVENT

Subsequent to March 31, 1988 a claim was filed against the Authority concerning termination provisions in a former employee's contract. This claim was settled on September 1, 1988, resulting in the Authority owing the former employee $135,504. This settlement will be charged to expense in the fiscal year ending March 31, 1989.

9. COMPARATIVE FIGURES

The prior year's comparative figures were reported on by another firm of chartered accountants.